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Is increasing profits the only social responsibility of business?

In an increasingly, sustainably-aware world, the role of business, especially in regards to social responsibility, has never been more relevant. While recent environmental disasters such as the explosion of the Deepwater Horizon offshore drilling rig have brought into light the social responsibilities of corporations, the rise of the benefit corporation within the United States has shown that corporations can exist by focusing solely on environmental impact. If for no other reason, focus on this issue is important for the number of parties involved: Clearly the corporation itself, as an entity and as individuals that comprise the corporation, has an interest, as well as shareholders, people who live near corporation-owned or operated infrastructure, and even the government, and by association the subjects of the governing body.

In his article *The Social Responsibility of Business is to Increase its Profits* [1], Milton Friedman suggests that any agenda other than wealth generation is in disagreement with the desires of the shareholders. The idea is that the executive exists to guide the corporation on behalf of any party with monetary stake in the company:

> *In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom.*

Friedman continues with an even more powerful idea. He links the action of an executive who isn't acting in the interest of his shareholders, to that of a civil servant. Friedman claims that the action of spending a corporation's money for social purposes is akin to taxing the company and its shareholders:

> *The whole justification for permitting the corporate executive to be selected by the stockholders is that the executive is an agent serving the interests of his principal. This justification disappears when the corporate executive imposes taxes and spends the proceeds for "social" purposes. He becomes in effect a public employee, a civil servant, even though he remains in name an employee of a private enterprise. The executive is exercising a distinct "social responsibility," rather than serving as an agent of the stockholders if he spends the money in a different way than they would have spent it. But if he does this, he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other.*

Friedman furthers his point by outlining the roles of a civil servant. He states that taxation is the responsibility of government, and is to be carried out by someone appointed by the people being taxed:

> *On the level of political principle, the imposition of taxes and the expenditure of tax proceeds are governmental functions. The whole justification for permitting the corporate executive to be selected by the stockholders is that the executive is an agent serving the interests of his principal. This justification disappears when the corporate executive imposes taxes and spends the proceeds for "social" purposes. He becomes in effect a public employee, a civil servant, even though he remains in name an employee of a private enterprise. On grounds of political principle, it is intolerable that such civil servants should be selected as they are now. If they are to be civil servants, then they must be elected through a political process.*

The article continues to talk about the "individual proprietor," and that his situation is quite different. Friedman makes the case that should an individual decreases margins under the guise of social work, that is his decision to make, and is not in conflict with the proprietor's responsibilities.

Friedman's reasoning is well thought out but fails to consider certain factors. If a corporation impacts citizens in a negative manner it is assumed that legislation will protect its subjects. In the event this is untrue, whether for lack of legislation regarding the area of offense or political corruption, the onus is upon the offended to claim offense. While this seems obvious and suggests that a group of people who do not speak up against a particular offense are not offended, this is not necessarily true. For example, someone may not know that any harm has been done to them. There may be improper information dissemination. Legislation governing the area of offense may be inadequate at safe-guarding the society. This would seem to suggest that the government is therefore responsible, and by association the citizens themselves. However, if a corporation is essentially harming a group of people is it not the responsibility of the corporation to pay reparations to those harmed? The idea of paying reparations is very "It's easier to ask forgiveness than to ask permission," suggesting that a company may act however it wishes provided it monetarily compensates all whom it harms. Therefore, how can a corporation or business not compulsorily have other social responsibilities beyond wealth generation?

Joe DesJardins adopts an opposite view to Friedman's in his article *Business and Environmental Sustainability*.[2] DesJardins claims that "hundreds of millions of people [struggle to obtain] the basic necessities of life," and that increasing population suggests increased grievance. DesJardins then suggests that it is the ethical responsibility of the corporation to interest itself in the welfare of the ecosystem and its inhabitants the world over:

> *Throughout the world, hundreds of millions of human beings struggle just to get the basic necessities of life. Population growth guarantees that these problems will only intensify in the immediate future. Justice and common decency, as well as self-interest, requires that these problems be addressed by those living in the economically developed world. Addressing these challenges will require significant global economic activity, integrated with social and political leadership. These factors will require that business in the twenty-first century be practiced in a way that is economically vibrant enough to address the real needs of billions of people, yet ecologically informed so that the earth's capacity to support life is not diminished by that activity and ethically sensitive enough that the human dignity is not lost or violated in the process.*

DesJardins recognizes current economic models and that in them profit and ethical responsibility are distinct features. DesJardins challenges this, and states that business will need to become sustainability-minded if the collective we are to make progress in "addressing environmental challenges:"

> *The dominant model of economics and business tends to understand the goals of profit and environmental or ethical responsibility as exclusive dualisms. Managers must choose between profit and social responsibility, between their financial duties to their business and their environmental or ethical duties.*
>
> *Part of the three pillars of sustainability, after all, is economic sustainability. If we expect business to address the significant global economic and environmental challenges of the twenty-first century, we need vibrant and stable, i.e., sustainable, businesses.*

DesJardins makes another interesting point, alluding to business being responsible for the decisions of the people:

Because business is responsible for influencing consumer choice, business is responsible when those choices prove problematic.

The article elaborates on why it behooves business to focus on sustainability. DesJardins makes the case if businesses focus on waste, an environmental consideration, benefits will be had by all parties including the corporation and its constituents, shareholders, and society at large:

Some persuasive reasons can be offered to the business community for why it should move in the direction of sustainability. First, of course, are many potential cost savings that can follow from eliminating wastes, reducing operating expenses, and striving towards eco-efficiency. Waste is a bad thing, both ecologically and financially. A company that reduces and eliminates its wastes will reduce its costs.

While DesJardins provides compelling scenarios and advice for future business and environmental climates, he, as did Milton Friedman, failed to include a complete analysis. If businesses should focus on environmental impact and sustainability, what will be the effect on their bottom line? This is not to say that business should be solely concerned with wealth generation, but if a business' returns diminish quarterly under the guise of environmental responsibility, will not the shareholders or other funding parties discontinue any support of the business? Further, will not the cost of products and services rendered increase, and as such result in the loss of clientele to less costly substitutes? Behavioral economics shows us that people purchase products that are cheap. Therefore, any expenditure that drives up cost will surely be negative for the business. While DesJardins makes this point when suggesting that businesses would benefit from diminishing waste, it is unreasonable to assume that businesses don't already work to decrease waste. It is also unrealistic to suggest that eradication of waste will save a business money. There comes a point when new staff and equipment needs to be accrued in order to manage the eradication of waste. Additional time must be spent designing tooling, greater accuracy must be taken when estimating necessary raw materials, and new equipment with better tolerance capabilities must be purchased. This surely does not add up to monetary savings for a business.

One article that brings to light seemingly unrelated evidence is Matthias Schulz's *Controlled Chaos: European Cities Do Away with Traffic Signs*. [3] The article details the effect of removing traffic signs, including speed limits, yield reminders, and traffic lights, from several cities in Europe. In effect, Schulz says that government regulation leads to "a kind of tunnel vision" whereby individuals are on the lookout for their own advantage. Shultz goes on to say that when conditions are less definite people are more likely to proceed with caution:

The result is that drivers find themselves enclosed by a corset of prescriptions, so that they develop a kind of tunnel vision: They're constantly in search of their own advantage, and their good manners go out the window.

It may sound like chaos, but it's only the lesson drawn from one of the insights of traffic psychology: Drivers will force the accelerator down ruthlessly only in situations where everything has been fully regulated. Where the situation is unclear, they're forced to drive more carefully and cautiously.

Schulz elaborates about a particular city, Drachten, where traffic accidents have decreased since the removal of signage:

"More than half of our signs have already been scrapped," says traffic planner Koop Kerkstra. "Only two out of our original 18 traffic light crossings are left, and we've converted them to roundabouts." Now

traffic is regulated by only two rules in Drachten: "Yield to the right" and "Get in someone's way and you'll be towed." Strange as it may seem, the number of accidents has declined dramatically.

This article serves to prove one of N. Gregory Mankiw's 10 Principles of Economics: Markets are usually a good way to organize economic activity. [4] The opposition to this idea is that government-regulated markets are successful. This article therefore extends the arguments made by Milton Friedman. If the corporation has some social obligation which is governed by legislation, the economy of a country is therefore inherently non free market. Shultz's findings prove that markets are self-regulating, as modern economic theory would have us believe. As an extension, if corporations focus solely on wealth generation, a society of people affected by poor decisions made by the corporation will not purchase the goods or services of the offending company. It would therefore stand to reason that governments with a free market economy would better serve their subjects if corporate regulation were not in place. While Friedman does not argue this point directly, the converse of his argument can be suggested that governments would do better to impose regulations which require corporations to engage in philanthropic, environmentally ethical activities.

While the idea that a free market economy is self-regulating is a powerful one, in reality it is not realistic. As mentioned, behavioral economics shows us that people tend to purchase cheaper goods. This would change however, in the event that the people of the society are thoroughly informed on environmental, ethical, and health issues. It is difficult to imagine the consumer who would rather save a few cents than purchase a product which was far healthier and less environmentally costly. It is therefore the responsibility of the consumer in tandem with information disseminating bodies to present un-biased facts. Any action other than this is in direct contrast to, and threatens the workings of, a free market economy.

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